BILINGUAL PUBLISHING GROUP
Pioneer of Global Academics Since 1984

Macro Management & Public Policies
https://journals.bilpubgroup.com/index.php/mmpp

ARTICLE

Stamp Duty Tax and Growth of Economy: Evidence from Nigeria

Ezejiofor Raymond A. [*]***, Apete Collins***

Department of Accountancy, Nnamdi Azikiwe University, PMB 5025, Awka, Nigeria

ABSTRACT

This study looked at the impact of the Nigerian stamp duty tax on the growth of the economy. Time series data were employed spanning the years 1999-2020. For various years, related data were extracted from the Central Bank of Nigeria Statistical Bulletin, the Bureau of National Statistics, and Federal Inland Revenue Service reports. E-view 9.0 was used to test the hypothesis using the ordinary least square. The study outcome revealed that stamp duty has an insignificant and positive impact on Nigeria's economic growth. It was recommended that the government improve public entities and provide strong government investment as a source of domestic revenue generated from various business activities.

Keywords: Taxation; Stamp duty tax; Growth of economy

1. Introduction

In the media, institutions, and public society encouragement, the tax policy debate continues to dominate [1]. This thought curtails the fact that taxes are not only the most important source of income for governments, states, or metropolises; they are also instruments for ratifying financial programs and prompting positive performance variation [2]. A country's tax system has essential control over other displays of macroeconomic [3]. In both industrialized and emerging economies, there is an oath between tax composition and the growth of the economy [4]. Certainly, it has been contended that a country's tax base heavily influences its level of economic growth, and tax rule fluctuates depending on the phase of development [5].

Furthermore, it may cause dissatisfaction among both domestic and foreign investors, resulting in a situation in which international investors quickly rebalance their international investments and flee to

*CORRESPONDING AUTHOR:
Ezejiofor Raymond A., Department of Accountancy, Nnamdi Azikiwe University, PMB 5025, Awka, Nigeria; Email: thaddray4life@yahoo.com

ARTICLE INFO
Received: 9 March 2023 | Revised: 16 April 2023 | Accepted: 18 April 2023 | Published Online: 24 April 2023
DOI: https://doi.org/10.30564/mmpp.v5i1.5523

CITATION
Raymond, A.E., Collins, A., 2023. Stamp Duty Tax and Growth of Economy: Evidence from Nigeria. Macro Management & Public Policies. 5(1): 50-56. DOI: https://doi.org/10.30564/mmpp.v5i1.5523

countries with tax systems that encourage industrial growth and high investment returns. As admirable as this is, it has obscured the need for a tax system that can be used to establish and develop industries in Nigeria. As a result, the importance of focusing Nigerian tax architecture on the goals of industrial development, economic growth, and job creation cannot be overstated. As a result, as has been well established in the literature, the goal of a tax system is not simply to raise a definite amount of income, raised from those segments of individuals and units who can best bear the burden of the tax [6]. In short, the goal is to ensure a fair distribution of the tax burden, which cannot be accomplished unless an effort is made to trace the incidence of each tax.

There have been a lot of studies on taxation's effect on economic growth with varying outcomes in Nigeria. Some studies show that tax revenue has a statistically significant relationship with gross fixed capital formation [7,8]. Similarly, it was found that taxation has a positive impact on economic growth [9-11]. However, on the flip side, some studies documented a negative association between taxation and economic growth [12,13]. Prior related scholarly works illustrate that taxation has no major association with the growth of the economy [14,15]. Several experimental scholars have been carried out as a result of the doubt about how taxes affect the growth of the economy, which this study anticipates to underwrite.

Stamp duty is one type of tax that has recently gained recognition in Nigeria. The federal government of Nigeria regards stamp duty as a viable source of revenue [16]. The accumulated stamp duty revenue is used in meeting recurrent expenditures. Because taxes are such an important part of government policies, they occupy a unique position. The Stamp Duties Act requires the stamping of all written instruments, including those in which property or an interest in a property is or is to be transferred or leased to any person. In Nigeria, stamp duties are typically charged at a rate of 7.5%. Any unstamped written document is not admissible in any judicial proceeding in Nigeria until the stamp duty and the resulting penalty for non-payment of the stamp duty are paid. As a result, this study explores the influence of the stamp duty tax on the growth of the economy in Nigeria.

2. Review of related literature

2.1 Taxation and its composition

Taxation pays for government activities like civil amenities like roads and education, as well as packages like communal safety and hospital. Julia Kagan broadened her definition to include the purpose of taxation, which is to fund government activities. Tax is an obligatory charge enforced by the government administration on people and organizations. It is a payment for which the government makes no direct or indirect contribution [17]. The principles of tax include: Compulsoriness of the levy as is installed in phase 24 of the 1999 constitution of the Federal Republic of Nigeria which vests all citizens of Nigeria with the responsibility to "claim his earnings really, to appropriate and lawful companies and pay his tax promptly".

The federal government has recently given stamp duty more recognition as a revenue-generating tool. According to NAN, the Federal Government expects to earn $66.1 billion in 2017 from stamp duty alone, according to the medium term expenditure framework and fiscal strategy paper for 2016, 2017, and 2018. It also forecasts an increase in revenue from 71.8 billion in 2017 to 78.5 billion in 2018. Furthermore, it has been stated that Nigeria's tax regime will be overhauled in order to significantly increase income without harming the poor, so that loopholes in the previous system will be closed. The policy is outlined in the Stamp Duty Act of 2004 and the 2009 financial regulations of the Federal Government of Nigeria. The federal high courts have authority over corporate income tax, petroleum profit tax, customs and exercise duties, stamp duties, corporate capital gains tax, and education tax. The federal government levies personal income tax (PIT), capital gains tax, and stamp duties, but state governments collect them [18].

Stamp duties are essentially taxes paid to the federal or state government on documents such as conveyances on sale, bills of exchange, promissory notes, agreements contracts, or even documents such as letters and certificates of admission, instruments of apprenticeship, insurance policies, and so on. The Stamp Duties Act 1939 (as amended by numerous acts and various resolutions and contained in vol 22 cap 411 LFN 1990) provides a list of documents in its schedule as well as the duty payable on each of them.

The Stamp Duties Act was endorsed in 1939 to offer a legal source for the imposition of obligations on a dutiable device that had been executed, but its application to dutiable tools in Nigeria was largely retrained or even overlooked by both duty payers and agencies [19]. The Stamp Duties Act, CAP S8, LFN 2004 (as amended), governs stamp duty collection, which can be done by the (FIRS), the Federal Capital Territory (FCT), as well as the respective state Internal Revenue Service (IRS) [20].

Stamp duties were previously one of the Nigerian government's underutilized revenue sources. The SDA's comprehensive list of dutiable instruments, which includes arrangements, contracts, bank deposits, bills of sale, bonds, certificates, deeds, legal mortgages, and so on, combined with the enormous volume of transactions requiring the execution of such dutiable instruments, would have made stamp duties one of the government's primary sources of revenue [21]. However, because the SDA had not been reviewed or updated in several decades, it had become nearly obsolete and out of touch with current realities. This could have contributed to the tax authorities' disinterest in enforcing collection and overall noncompliance with the SDA's provisions.

2.2 Economic growth

Growth of the economy is an upturn in the worth of an economy's goods and services, which produces extra income for trades and implies an increase in National Income and Per-Capita Income [22]. As a result, stock prices rise, providing companies with capital to invest and hire more workers. The growth of the economy is typically represented by growth in a nation's gross domestic product (GDP), which is the sum of the monetary worth of the nation's goods and services created over a given time period. As a result, economic growth can be defined as the process by which a country's real national and per capita income increases over time. When it comes to measuring economic growth, the upturn in per capita income is the healthier measure because it reflects an improvement in the living standards of the masses, which should also be reflected in terms of increased output of goods and services [22].

2.3 Empirical review

This research work looked into the outcome of tax funds on Nigeria's growing economy. The data emanated from the annual account of statistics published by the National Bureau of Statistics (NBS). For the regression analysis, E-view 9.0 was used at a 5% level of significance, and the study revealed that income from tax has no momentous on inflation and interest rates in the nation [15]. From 2000 to 2019, the research explores the influence of tax funds on per capita income of Nigeria. Descriptive statistics were used to describe the study variables, and the hypothesis was analyzed with regression analysis. It was found that tax fund has a substantial positive influence on per capita income Nation [7]. The research investigated the relationship between tax revenue and Nigerian economic growth. They analyzed their data using Stata software. Their research discovered that the Petroleum Profit Tax (oil tax revenue) has a positive but non-significant relationship with Nigerian economic growth, whereas the Value Added Tax and Companies Income Tax (non-oil tax revenue) do not [23]. Using annual time series data from 1980 to 2018, the study investigated the impact of taxation on economic growth in Nigeria. They analyzed their data using the autoregressive distributed lag (ARDL) model. Their findings revealed that in Nigeria, long-run taxes on economic growth are more pronounced than short-run taxes [24]. From 2003 to 2017, the study investigated the impact of taxation on Nigerian economic development [25]. They employed the Vector Error Correction Model (VECM), the

Augmented Dickey-Fuller (ADF) unit root test, the Autoregressive Distributed Lag (ARDL) bounds test, the Jarque-Bera Normality Test, and the Eigenvalue Stability Condition Test. Their findings revealed that petroleum profit tax, corporate income tax, and value added tax have long-run effects on Nigerian development of economy, respectively. From 1990 to 2015, it was investigated the influence of taxation on the growth of Nigerian economy, data originated from the Central Bank of Nigeria (CBN) Statistical Bulletin. They estimated linear versions of Company Income Tax (CIT), Value Added Tax (VAT), and economic growth (GDP) using the ordinary least square (OLS) technique. Their findings confirmed the presence of the hypothesized link between Value Added Tax, Company Profit Tax, and financial growth in the Nigerian context [26]. From 1993 to 2013, the study investigated the impact of indirect tax revenue on Nigerian economic growth [27]. The study used convenient sampling techniques with value added tax revenue and customs and excise revenue for the empirical analysis. The data were analyzed using descriptive statistics, correlation, unit root test, co-integration test, and error correction model regression. According to the findings, value added tax had a negative and significant impact on real GDP. Customs and excise duties had a similar negative and marginally significant impact on real GDP. Studying the impact of tax revenue on the Nigerian economy from 1998 to 2014, the data were extracted using the desk survey method from the Central Bank Statistical Bulletin. The ordinary least squares of multiple regression models were used to establish the relationship between dependent and independent variables. The findings revealed a strong link between the petroleum profit tax and Nigerian economic growth. It demonstrated that non-oil revenue has a significant relationship with Nigerian economic growth [23]. From 1970 to 2010, a study investigated the impact of the Petroleum Profit Tax (PPT) on the Nigerian economy [28]. To analyze data involving variables such as GDP, Petroleum Profit Tax, Inflation, and Exchange Rates, multiple regressions were used. With an adjusted R2 of 86.3%, the study's findings revealed that all variables were statistically significant to Nigeria's economic growth.

3. Methodology

This study employed a longitudinal research design. The design was chosen with the intention of discovering trends and patterns of change in mind. This was critical in determining the long-term economic impact of tax composition revenue. Data used in this study were compiled from the Central Bank of Nigeria Statistical Bulletin (CBN) and Federal Inland Revenue Service (FIRS) for twenty two years. The data include Gross Domestic Product (GDP) and Stamp Duty Tax (SDT).

3.1 Model specification

The study modified the model [29].

$$GDP = \beta o + \beta_1 SDT_t + \mu t \quad (1)$$

where, GDP = Gross Domestic Product; SDT = Stamp Duty Tax; μ_t = Error Term; t = Time; β_0-β_1 = Parameter Coefficients.

The independent variable is stamp duty while Gross Domestic Product represents the dependent variable. Ordinary least square analysis was used to test the hypothesis via E-View 9.0.

3.2 Decision rule

If the P value is greater than 0.05, accept the null hypothesis; otherwise, reject the alternate hypothesis.

4. Analysis and results

4.1 Data analysis

In this section, we tested for stationarity (Unit Root Test) before applying auto regressive distributive lag regression as shown in **Table 1** below:

4.2 Unit root test

As shown in **Table 1** above, the means and variances of the variables under consideration are

Table 1. Unit root test result.

Null Hypothesis: GDP has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic - based on SIC, maxlag = 4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			–2.182337	0.2178
Test critical values:	1% level		–3.788030	
	5% level		–3.012363	
	10% level		–2.646119	
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GDP)				
Method: Least Squares				
Date: 03/14/23 Time: 21:15				
Sample (adjusted): 2000 2020				
Included observations: 21 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP(-1)	–0.229502	0.105164	–2.182337	0.0418
C	3390261.	1461394.	2.319882	0.0316
R-squared	0.200424	Mean dependent var		226281.4
Adjusted R-squared	0.158341	S.D. dependent var		917167.2
S.E. of regression	841427.3	Akaike info criterion		30.21398
Sum squared resid	1.35×10^{13}	Schwarz criterion		30.31346
Log likelihood	–315.2468	Hannan-Quinn criter.		30.23557
F-statistic	4.762593	Durbin-Watson stat		2.215474
Prob(F-statistic)	0.041843			

expected to be persistent over time in this pre-regression analysis. Non-stationary variables, also known as unit root variables, have means and variances that change over time. As a result, using Ordinary Least Squares regression to estimate regression equations with non-stationary or unit root variables produces misleading results. Instead, if the variables are non-stationary, use the cointegration method to estimate their long-run relationship.

4.3 Hypothesis testing

Table 2 indicates that the stamp duty tax does not discernibly impact Nigeria's economic growth. The above-mentioned model yields the following results for the variable of stamp duty (SDT): (Coef. = 195, t = 1.27, and P-value = 0.218). It was revealed that stamp duty is a positive and statistically insignificant effect on economic growth in Nigeria at the 5% level. As a result, the stamp duty tax has an insignificant positive impact on Nigeria's economic growth.

5. Conclusions and recommendations

This research work presents the viewpoint that lower taxes (in terms of excise duty tax) can affect economic growth, which is stable with models of endogenous growth. Accordingly, an advanced tax rate discourages saving which leads to stagnated development. As a result of this study, it can be concluded that stamp duty tax revenue surprisingly stall economic growth in Nigeria during the period under investigation.

Furthermore, the results of the stamp duty variable show a significant negative effect on the economic growth of Nigeria. The result is confirmation

Table 2. Regression result.

Dependent Variable: GDP				
Method: Least Squares				
Date: 03/14/23 Time: 19:51				
Sample: 1999 2020				
Included observations: 22				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13620767	408566.4	33.33795	0.0000
SDT	19496.10	15338.48	1.271058	0.2183
R-squared	0.074742	Mean dependent var		13839336
Adjusted R-squared	0.028479	S.D. dependent var		1763642.
S.E. of regression	1738347.	Akaike info criterion		31.66128
Sum squared resid	6.04×10^{13}	Schwarz criterion		31.76046
Log likelihood	–346.2740	Hannan-Quinn criter.		31.68464
F-statistic	1.615588	Durbin-Watson stat		0.415885
Prob(F-statistic)	0.218293			

that taxation is still a powerful socio-political and economic tool for economic growth and national prosperity [25]. Tax evasion is a global concern, but it appears to be common when compared to the prevalence of corrupt practices. Since tax is the main spring of government revenue, if people can avoid paying it through lawful or unlawful means, the speculative equity of the tax is lost. As a result, tax evasion and avoidance reduce the government's effectiveness in promoting economic growth. The findings are consistent with [30]. This study recommended that the government improve public entities and provide strong government investment as a source of domestic revenue generated from various business activities.

Conflict of Interest

There is no conflict of interest.

References

[1] Mcbride, W., (2012). What Is the Evidence on Taxes and Growth? [Internet]. Available from: https://taxfoundation.org/what-evidence-taxes-and-growth/

[2] Cobham, A., Janský, P., 2018. Global distribution of revenue loss from corporate tax avoidance: Re-estimation and country results. Journal of International Development. 30(2), 206-232.

[3] Pjesky, R.J., 2006. What do we know about taxes and state economic development? A replication and extension of five key studies. Journal of Economics. 32(1), 25-40.

[4] Shuai, X.B., Chmura, C., 2013. The effect of state corporate income tax rate cuts on job creation. Business Economics. 48(3), 183-193.

[5] Mbanefoh, A., 2012. Principles of taxation. International Journal of Academic Research in Business and Social Sciences. 5(6), 34-43.

[6] Mankiw, N.G., Romer, D., Weil, D., 1992. A contribution to the empirics of economic growth. Quarterly Journal of Economics. 107, 407-437.

[7] Nweze, C.L., Ogbodo, O.C., Ezejiofor, R.A., 2021. Effect of tax revenue on per capital income of Nigeria. International Journal of Research (IJR). 8(11).

[8] Okeke, M.N., Mbonu, C.M., Ndubuisi, A.N., 2018. Tax revenue and economic development in Nigeria: A disaggregated analysis. International Journal of Academic Research in Accounting, Finance and Management Sciences. 8(2), 178-199.

[9] Ogundana, O.M., Ibidunni, A.S., Adetoyinbo, A., 2017. Impact of direct and indirect tax on

the Nigerian economic growth. Binus Business Review. 8(3), 215-220.

[10] Kalaš, B., Mirović, V., Andrašić, J., 2017. Estimating the impact of taxes on the economic growth in the United States. Economic Themes. 55(4), 481-499.

[11] Neway, G., Kenenisa, L.D., Woldemicael, S., 2018. Determinants of tax revenue in Ethiopia. Economics. 6(1), 58-64.

[12] Atems, B., 2015. Another look at tax policy and state economic growth: The long and short run of it. Economics Letters. 127(1), 64-67.

[13] Dladla, K., Khobai, H., 2018. The Impact of Taxation on Economic Growth in South Africa (No. 86219) [Internet]. Munich Personal RePEc Archive. Available from: https://mpra.ub.uni-muenchen.de/86219/

[14] Gale, W.G., Krupkin, A., Rueben, K., 2015. The relationship between taxes and growth at the state level: New evidence. National Tax Journal. 68(4), 919-941.

[15] Ezekwesili, T.P., Ezejiofor, R.A., 2022. Tax revenue and economic growth: A study of Nigerian economy. International Journal of Research in Education and Sustainable Development. 2(3), 10-24.

[16] Besley, T., Meads, N., Surico, P., 2014. The incidence of transaction taxes: Evidence from a stamp duty holiday. Journal of Public Economics. 119, 61-70.

[17] Adebao, K., 2009. Perceived relationship between exchange rate and economic growth in Nigeria, 1970-2010. American Journal of Humanities and Social Sciences. 1(3), 116-124.

[18] Micah, L.C., Ebere, C., Umuobong, A.A., 2012. Tax system in Nigeria-Challenges and the way forward. Research Journal of Finance and Accounting. 3(5), 9-15.

[19] Odiambo, O., Olushola, O., 2018. Taxation and Economic Growth in a Resource-rich Country: The Case of Nigeria [Internet] [cited 2021 Apr 26]. Available from: https://www.intechopen.com

[20] Ofoegbu, G.N., Akwu, O.D., Oliver, O., 2016. Empirical analysis of effect of tax revenue on economic development of Nigeria. International Journal of Asian Social Science. 6(10), 604-613.

[21] Edewusi, D.G., Ajayi, I.E., 2019. The nexus between tax revenue and economic growth in Nigeria. International Journal of Applied Economics, Finance and Accounting. 4(2), 45-55.

[22] Amadeo, K., 2020. What is Economic Growth? [Internet]. The Balance. Available from: https://www.thebalance.com/what-is-the-gdp-growth-rate-3306016

[23] Onoja, E.E., Ibrahim, A.S., 2020. Tax revenue and Nigeria economic growth. European Journal of Social Sciences. 3(1), 30-43.

[24] Alexander, A.A., Keyi, M.D., Alfa, Y., 2019. Taxation and economic growth in Nigeria: Evidence from autoregressive distributed LAG (ARDL) model. International Journal of Innovative Fiance and Economics Research. 7(4), 143-151.

[25] Olaoye, C.O., Ogundipe, A.A., Oluwadare, O.E., 2019. Tax revenue and economic development in Nigeria. Advances in Social Sciences Research Journal. 6(9), 312-321.

[26] Ironkwe, U.I., Gbarakoro, N.O.S., 2019. Tax contribution and economic growth in Nigeria. International Journal of Advanced Academic Research Accounting Practice. 5(4), 1-17.

[27] Akhor, S.O., Ekundayo, O.U., 2016. The impact of indirect tax revenue on economic growth: The Nigeria experience. Igbinedion University Journal of Accounting. 3(2), 62-87.

[28] Onaolapo, S., Aworemi, E.I., Ajala, K., 2013. Impact of value added tax on revenue generation in Nigeria. Quarterly Journal of Economics. 122(19), 729-773.

[29] Ogbeide, S.O., 2017. Firm characteristics and tax aggressiveness of listed firms in Nigeria: Empirical evidence. International Journal of Academic Research in Public Policy and Governace. 4(1), 62-75.

[30] Asaolu, T.O., Olabisi, J., Akinbode, S.O., et al., 2018. Tax revenue and economic growth in Nigeria. Scholedge International Journal of Management & Development. 5(7), 72-85.